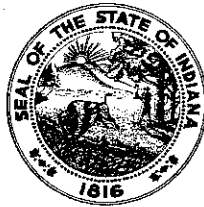


# STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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**TO:** Assessing Officials

**FROM:** Barry Wood, Assessment Division Director *g/w*

**RE:** Golf Course Guidance

**DATE:** March 15, 2012

Starting with the March 1, 2012 assessment, IC 6-1.1-4-42(e), requires the Department of Local Government Finance (the "Department") to establish uniform capitalization tables and procedures to be used for the assessment of golf courses. These tables will be formally promulgated in a future administrative rule.

"Golf course" means an area of land and yard improvements that are predominately used to play the game of golf. A golf course consists of a series of holes, each consisting of a teeing area, fairway, rough and other hazards, and the green with the pin and cup. IC 6-1.1-4-42(b).

Assessing officials must use the tables and procedures adopted by the Department to assess, reassess, and annually adjust the value of golf courses. Please note, the Department has previously issued guidance regarding the assessment of golf courses (see [http://www.in.gov/dlgf/files/090817 - Wood Memo - Valuation of Golf Courses - Legislative Changes.pdf](http://www.in.gov/dlgf/files/090817_-_Wood_Memo_-_Valuation_of_Golf_Courses_-_Legislative_Changes.pdf); [http://www.in.gov/dlgf/files/091215 - Wood Memo - Golf Course Valuation Guidance Supplement.pdf](http://www.in.gov/dlgf/files/091215_-_Wood_Memo_-_Golf_Course_Valuation_Guidance_Supplement.pdf); and [http://www.in.gov/dlgf/files/110505 - Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/110505_-_Wood_Memo_-_Golf_Course_Guidance.pdf)).

Indiana Code 6-1.1-4-42(c)(3) excludes from the true tax value the value of personal property, intangible property, and income derived from personal or intangible property such as course naming rights. The Department has interpreted this statute to exclude the income derived from the rental of golf carts from the income capitalization approach to valuation. The Department believes this would be applicable to pro shop income as well.

The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 "Income Approach to Valuation"). It is based on the economic principles of:

- Anticipation
- Change
- Supply and demand and competition
- Substitution
- Balance and contribution

### **Basis of Income:**

For a golf course, there may be several different sources of income, including greens fees, membership dues, concessions, and other miscellaneous sources. Assessing officials should solicit data for gross income and allowable operating expenses from the golf course operators and use federal tax returns or similar evidence as verification that the submissions are correct. **This should be utilized when submitted numbers are out of line with those of similarly situated competitors.** Additionally, the financial records and federal tax return(s) of the taxpayer should be carefully scrutinized to ensure the appropriate income and expense information for the subject property is utilized.

### **Income and Expense Statement:**

Income and expense information obtained from the golf course operator may or may not include the information below. If the information from the owner's statement(s) is available, the assessing official should strive to reconstruct it into the following format:

- Gross Income (potential gross income)
- Miscellaneous Income
- Effective Gross Income
- Allowable Expenses:
  - Operating
  - Replacement Reserves
  - Real Estate taxes (deducted under certain conditions, for example, when calculating for property tax purposes)
  - Management fees/expense
  - Insurance
  - Salaries
  - Benefits
  - Utilities
  - Advertising
  - Repairs
  - Supplies
  - Legal and Accounting Fees
  - Miscellaneous Expenses
  - Replacement Reserves
- Non-allowable expenses:
  - Depreciation (reflected in the recapture rate)
  - Capital improvements
  - Franchise fees and special corporation costs
  - Owner's personal expenses (income taxes, etc.)
  - Debt service (principal and interest on mortgage)
  - Payments on loans for capital improvements
  - Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).

Utilizing income and expense information from the local golf course(s), the assessing official should use the following steps to determine the valuation:

- Step One: Determine Potential Gross Income
- Step Two: Add miscellaneous income
- Step Three: Potential Gross Income plus miscellaneous income = Effective Gross Income (EGI)
- Step Four: Deduct Expenses and Replacement Reserves
- Step Five: Effective Gross Income less Expenses and Replacement Reserves = Net Operating Income
- Step Six: Divide Net Operating Income by the Overall Capitalization Rate = Assessed Value

**The income and expense information will vary from course to course, particularly in the detail provided. For those courses where detailed income and expense information may not be available, but information such as ordinary income, depreciation, interest expense, entertainment (if any), and golf cart income (less expenses) – see page 4 of <http://www.in.gov/dlgf/files/110505> - Wood Memo - Golf Course Guidance.pdf is available, it should be utilized to determine the assessed value.**

The following example is used for illustrative purposes, and does not represent an actual golf course or financial information from a golf course:

– **Income and Expense Statement for the “Missing Links” Course:**

| INCOME                  | 2011      | 2010      | 2009      | 3-Year Average  |
|-------------------------|-----------|-----------|-----------|-----------------|
| Rounds Played           | 1,000     | 900       | 950       |                 |
| GOLF INCOME             |           |           |           |                 |
| Green Fees              | \$33,000  | \$32,000  | \$33,500  |                 |
| Annual Golfing          |           |           |           |                 |
| Member Dues             | \$75,000  | \$68,000  | \$70,000  |                 |
| Driving Range           | \$10,500  | \$8,750   | \$9,000   |                 |
| Miniature Golf Sales    | \$8,500   | \$7,000   | \$7,800   |                 |
| Club Storage            | \$1,200   | \$900     | \$1,000   |                 |
| Total Golf EGI          | \$128,200 | \$116,650 | \$121,300 | \$122,050       |
| NON-GOLF INCOME         | 2011      | 2010      | 2009      | 3-Year Average  |
| Food & Beverage         |           |           |           |                 |
| Sales                   | \$37,500  | \$35,000  | \$36,000  |                 |
| Annual Non-Golfing      |           |           |           |                 |
| Member Dues             | \$16,000  | \$13,000  | \$14,500  |                 |
| Other Income            | \$1,200   | \$1,000   | \$1,500   |                 |
| Total Non-Golf          |           |           |           |                 |
| Income                  | \$54,700  | \$49,000  | \$52,000  | <u>\$51,900</u> |
| Total Enterprise Income |           |           |           | \$173,950       |
| GOLF EXPENSES           | 2011      | 2010      | 2009      | 3-Year Average  |

|                    |          |          |          |
|--------------------|----------|----------|----------|
| Course Maintenance | \$16,000 | \$15,250 | \$14,750 |
| Course Maintenance |          |          |          |
| Salaries           | \$27,000 | \$25,500 | \$28,750 |
| Irrigation         | \$7,500  | \$7,000  | \$6,500  |

| GOLF EXPENSES                       | 2011     | 2010     | 2009     | 3-Year Average |
|-------------------------------------|----------|----------|----------|----------------|
| Advertising/<br>Promotion @ 50%     | \$1,000  | \$1,000  | \$1,000  |                |
| Facilities<br>Insurance @ 25%       | \$3,500  | \$3,500  | \$3,500  |                |
| Management @ 10%                    |          |          |          |                |
| Golf EGI                            | \$12,820 | \$11,665 | \$12,130 |                |
| Replacement<br>Reserves @ \$2/round | \$2,000  | \$1,800  | \$1,900  |                |
| Total Golf Expenses                 | \$69,820 | \$65,715 | \$68,530 | \$68,022       |

| Non-Golf Expenses                | 2011     | 2010     | 2009     | 3-Year Average |
|----------------------------------|----------|----------|----------|----------------|
| Other Real Estate<br>Maintenance | \$5,000  | \$3,500  | \$4,750  |                |
| Other Salaries                   | \$30,000 | \$27,800 | \$29,250 |                |
| Other Utilities                  | \$5,500  | \$5,000  | \$4,750  |                |
| Advertising<br>/Promotion @ 50%  | \$1,000  | \$1,000  | \$1,000  |                |
| Facilities Insurance<br>@ 75%    | \$10,500 | \$10,500 | \$10,500 |                |
| Cost of Food/<br>Beverage Sales  | \$14,250 | \$13,500 | \$16,000 |                |
| Management @<br>10% Non-Golf EGI | \$5,470  | \$4,900  | \$5,200  |                |
| Total Non-Golf<br>Expenses       | \$71,720 | \$66,200 | \$71,450 | \$69,790       |

Total Enterprise Expenses \$137,812

Total Enterprise NOI \$36,138

Capitalize @ 13%\* \$277,985

Market Value-In-Use of Real Estate \$278,000 (rounded)

\* Capitalization rate for illustrative purposes only.

### Capitalization Rate:

Determining the Net Operating Income (NOI) is a key determinant in establishing the value of a property in the income approach. The other key component that may have a significant effect on the total value of the property is the capitalization rate. The "Overall Capitalization Rate" (OAR) expresses the relationship between net operating income and the market value of the property. It can be developed using the following:

- Market Extraction
- Effective Tax Rate
- Mortgage & Equity
- Discounted Cash Flow

The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor. **The OAR is listed separately for each county on the attached sheet.** To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.

#### **General Notes:**

Three (3) years of income and expense information is preferable; however, some information may be limited. If, for whatever reason, the assessing official is not able to obtain income and expense information from their local course(s), there are a few options: 1) the leadership of the Indiana Golf Course Owners Association has indicated they would be willing to follow-up with those courses that refuse to provide the information. Please contact Barry Wood with the course name and location; 2) If you have more than one course in your county, and you have income and expense information from them, you could use that information to help establish a value (the information should be reviewed and adjustments made if necessary); 3) If there is only one course in the jurisdiction, check with surrounding counties to find comparable golf courses and use their information to estimate the assessed value (adjustments may need to be made). Other resources, like appraisals, may also be used in the process to derive a value.

The issue of a zero or negative assessment as a result of a negative NOI has also caused confusion. In those situations where there is a negative NOI, the assessor should first carefully review the financial information to ensure that all income and expense information is accurate. Although each situation is different, great deference is given to local control. The assessing official should strive to work with the golf course to determine an equitable solution in those instances where there is still a negative value after the review.

Finally, apparently there have been some instances where the assessing official has not changed the assessed value even though the income valuation approach warrants a change. As part of the general reassessment, and the annual adjustment process, each assessment year stands alone. Although there may be instances where the assessed value does not change from one year to the next, the assessing official should review the income and expense information (if available) to determine if a change is warranted, and not simply carry-over the assessed value.

If you have any questions, please contact your Assessment Division Field Representative or Assessment Division Director, Barry Wood at [Bwood@dlgf.in.gov](mailto:Bwood@dlgf.in.gov) or 317.232.3762.

| CountyNum | County      | 2012 Proposed Cap Rate |
|-----------|-------------|------------------------|
| 1         | Adams       | 12.00%                 |
| 2         | Allen       | 12.00%                 |
| 3         | Bartholomew | 12.00%                 |
| 4         | Benton      | 12.00%                 |
| 5         | Blackford   | 12.00%                 |
| 6         | Boone       | 12.00%                 |
| 7         | Brown       | 12.00%                 |
| 8         | Carroll     | 12.00%                 |
| 9         | Cass        | 12.00%                 |
| 10        | Clark       | 12.00%                 |
| 11        | Clay        | 12.00%                 |
| 12        | Clinton     | 12.00%                 |
| 13        | Crawford    | 12.00%                 |
| 14        | Daviess     | 12.00%                 |
| 15        | Dearborn    | 12.00%                 |
| 16        | Decatur     | 12.00%                 |
| 17        | Dekalb      | 12.00%                 |
| 18        | Delaware    | 12.00%                 |
| 19        | Dubois      | 12.00%                 |
| 20        | Elkhart     | 12.00%                 |
| 21        | Fayette     | 12.00%                 |
| 22        | Floyd       | 12.00%                 |
| 23        | Fountain    | 12.00%                 |
| 24        | Franklin    | 12.00%                 |
| 25        | Fulton      | 12.00%                 |
| 26        | Gibson      | 12.00%                 |
| 27        | Grant       | 12.00%                 |
| 28        | Greene      | 12.00%                 |
| 29        | Hamilton    | 11.50%                 |
| 30        | Hancock     | 12.00%                 |
| 31        | Harrison    | 12.00%                 |
| 32        | Hendricks   | 12.00%                 |
| 33        | Henry       | 12.00%                 |
| 34        | Howard      | 12.00%                 |
| 35        | Huntington  | 12.00%                 |
| 36        | Jackson     | 12.00%                 |
| 37        | Jasper      | 12.00%                 |
| 38        | Jay         | 12.00%                 |
| 39        | Jefferson   | 12.00%                 |
| 40        | Jennings    | 12.00%                 |
| 41        | Johnson     | 12.00%                 |
| 42        | Knox        | 12.00%                 |
| 43        | Kosciusko   | 12.00%                 |
| 44        | LaGrange    | 12.00%                 |
| 45        | Lake        | 12.00%                 |
| 46        | LaPorte     | 12.00%                 |

|                |        |
|----------------|--------|
| 47 Lawrence    | 12.00% |
| 48 Madison     | 12.00% |
| 49 Marion      | 12.00% |
| 50 Marshall    | 12.00% |
| 51 Martin      | 12.00% |
| 52 Miami       | 12.00% |
| 53 Monroe      | 12.00% |
| 54 Montgomery  | 12.00% |
| 55 Morgan      | 12.00% |
| 56 Newton      | 12.00% |
| 57 Noble       | 12.00% |
| 58 Ohio        | 12.00% |
| 59 Orange      | 12.00% |
| 60 Owen        | 12.00% |
| 61 Parke       | 12.00% |
| 62 Perry       | 12.00% |
| 63 Pike        | 12.00% |
| 64 Porter      | 12.00% |
| 65 Posey       | 12.00% |
| 66 Pulaski     | 12.00% |
| 67 Putnam      | 12.00% |
| 68 Randolph    | 12.00% |
| 69 Ripley      | 12.00% |
| 70 Rush        | 12.00% |
| 71 St. Joseph  | 12.00% |
| 72 Scott       | 12.00% |
| 73 Shelby      | 12.00% |
| 74 Spencer     | 12.00% |
| 75 Starke      | 12.00% |
| 76 Steuben     | 12.00% |
| 77 Sullivan    | 12.00% |
| 78 Switzerland | 12.00% |
| 79 Tippecanoe  | 12.00% |
| 80 Tipton      | 12.00% |
| 81 Union       | 12.00% |
| 82 Vanderburgh | 12.00% |
| 83 Vermillion  | 12.00% |
| 84 Vigo        | 11.00% |
| 85 Wabash      | 12.00% |
| 86 Warren      | 12.00% |
| 87 Warrick     | 12.00% |
| 88 Washington  | 12.00% |
| 89 Wayne       | 12.00% |
| 90 Wells       | 12.00% |
| 91 White       | 12.00% |
| 92 Whitley     | 12.00% |